

Decision **PROPOSED DECISION OF ALJ HYMES** (Mailed 11/14/2014)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Suburban Water Systems (U339W) for Authority to Increase Rates Charged for Water Service by \$8,932,501 or 13.37% in 2015, by \$3,210,905 or 4.32% in 2016, and by \$2,722,809 or 3.51% in 2017.

Application 14-02-004
(Filed February 24, 2014)

**DECISION ADOPTING SETTLEMENT BETWEEN SUBURBAN
WATER SYSTEMS AND OFFICE OF RATEPAYER ADVOCATES
AND DETERMINING UNSETTLED ISSUES**

Summary

This decision adopts a proposed settlement between Suburban Water Systems and the Office of Ratepayer Advocates that addresses all but one issue in the proceeding. The decision also resolves three inter-related aspects of the one litigated issue. Through the settlement and the litigated issue we have determined the revenue requirement for a test year 2015 and two years of subsequent adjustments. The decision results in an overall rate increase of \$7,015,600 or 10.14 percent for 2015. This proceeding is closed.

1. Background and Procedural History

Consistent with the Commission's Rate Case Plan in Decision (D.) 07-05-062, on February 24, 2014, Suburban Water Systems (Suburban) applied for authority to increase rates charged for water service by \$8,932,501 or

13.7% in 2015, by \$3,210,905 or 4.32% in 2016, and by \$2,722,809 or 3.51% in 2017. On March 28, 2014, the Office of Ratepayer Advocates (ORA) filed a protest to the application and on April 7, 2014, Suburban filed a reply to the protest.

Following a pre-hearing conference held by the assigned Administrative Law Judge (ALJ), the assigned Commissioner and ALJ jointly issued a Ruling and Scoping Memo (Scoping Memo) defining the scope and schedule of the proceeding.¹ Pursuant to that schedule, ORA served testimony on June 9, 2014, and Suburban served its rebuttal testimony on June 30, 2014.

The ALJ held a properly noticed Public Participation Hearing in West Covina on July 16, 2014.

On July 17, 2014, the ALJ, ORA, and Suburban met via conference call during which Suburban announced that the two parties had come to a tentative settlement agreement on all but one issue. Furthermore, Suburban and ORA stated that, because no facts remain in dispute, evidentiary hearings were no longer necessary and requested that they be cancelled. In a Ruling issued on July 18, 2014, the ALJ revised the schedule for the proceedings and cancelled the scheduled evidentiary hearings.

On August 22, 2014, Suburban Water and ORA filed a motion for the adoption of a settlement agreement between Suburban and ORA (Settlement) (Motion).² On September 2, 2014, Suburban and ORA filed briefs on the unsettled issue. Reply briefs were filed by both parties on September 9, 2014.

¹ The ALJ held a Prehearing Conference on April 16, 2014, and the Scoping Memo was issued on April 30, 2014.

² The Parties filed an amended joint motion on September 10, 2014. According to the amended motion, "Appendix B was inadvertently omitted from the original joint motion. The purpose of the amended joint motion is to provide this appendix. No other changes have been made to the joint motion or Settlement." See Amended Joint Motion at Footnote 1.

2. Overview of the Settlement

After three days of settlement discussions, Suburban and ORA (Parties) agreed to settle the following issues:

Water Consumption and Operating Revenues

Parties agreed to use ORA's estimates for residential water sales per customer. Suburban agreed to update its residential and business annual consumption for years 2013, 2014, and 2016 to match Test Year 2015.

Escalation

Parties agreed to use the California Public Utilities Commission's (Commission) most recent escalation factor number memoranda once the numbers are finalized. The escalation factor has been updated from the June 2013 factor to the July 2014 factor.³

Operations and Maintenance Expenses

Parties agreed to use ORA's projections for purchased water and purchased power, and ORA's adjustments for pumping equipment maintenance, water treatment expenses, and transmission and distribution expenses.

Administrative and General Expenses

Parties accepted ORA's adjustments except in the following areas: Parties recalculated costs for 401(k) employer contributions based on the settled payroll amount; Parties agreed to reduce Suburban's request for employee welfare by \$23,614; Parties agreed to use Suburban's estimate for auto allowance; Parties agreed that franchise fees should be calculated based on the total water service revenues the Commission approves in the final decision; Parties agreed to

³ In comments to the proposed decision, Suburban contends that this update has, in fact, been made and is correctly reflected in Attachment 2 to this decision. (See Amendment Joint Motion at 3 and Suburban Comments to the Proposed Decision, December 4, 2014 at 2.)

specific amounts for the Recovery of General Rate Expenses, but did not agree on three related issues as further discussed in Section 6 below; Parties agreed that Suburban should recover the 2012 Cost of Capital Expenses in the memorandum account via surcharge over a twelve-month period; Parties agreed that forecasted costs for 2016 Cost of Capital Expense should be recovered in rates; Parties agreed to use Suburban's estimate for the witness preparation component of 2014 General Rate Case (GRC) Expense; and Parties agreed to use 2014 estimates for 2017 GRC Expense and compromised on a reduced estimate for consultant fees.

Payroll

Parties agreed to use Suburban's zero vacancy method to calculate the payroll expense. Parties agreed upon a 3.49 percent difference between 2013 total payroll costs versus the 2013 incentive compensation costs. Parties reached compromise on the number of new positions, reduced to five from the requested nine.

Income Taxes and Taxes Other than Income

Here, the contentious issue is the calculation of the California Corporation Franchise Tax Deduction. The agreed-upon deduction reflects the Settlement in the areas of operating revenues, expenses and capital expenditures.

Utility Plant in Service

The agreed-upon weighted average plant in service estimates are based on the Settlement regarding capital projects. Parties agreed on recovery for all but three of the projects completed in 2012 and 2013 but not previously authorized. Parties also agreed that a combined budget of \$28.6 million provides a pool of funds for planned capital projects that is reasonable and provides flexibility to Suburban.

Depreciation Reserve and Depreciation Expense

The agreed-upon estimates for accumulated depreciation are based on the Settlement for plant additions.

Rate Base

The agreed-upon rate base estimates reflect the Settlement in the areas of plant additions, depreciation and working cash.

Indirect Cost Allocation

There are two sets of allocations: allocation of parent company costs factor and utility group allocation factor. For the parent company costs factor, Parties agree to use a three-factor allocation method of operating expenses, payroll and gross plant, using the traditional calculation of gross plant instead of the replacement cost for property insurance. Additionally, for allocating the requested five Information Technology positions, Parties agreed these positions should be included in the pool of costs to be allocated using the agreed-upon three-factor allocation. For the utility group allocation factor, Parties also agreed to use the three-factor allocation and to keep eleven contracts in this group, as requested by Suburban.

Other Revenues Non-Tariff Products and Services

Under Commission rules, the first \$100,000 in gross revenues in this category is allocated to ratepayers and additional revenues are shared. Parties could not settle on the application of this threshold and agreed to split the difference.

Existing Memorandum and Balancing Accounts

There are four accounts in question here. For the Recycled Water Balancing Account, Suburban agreed to include this balancing account in its preliminary statement with agreed-upon language. For the Security Measures Memorandum Account and the Low-Income Customer Data Sharing Memorandum Account, the Parties agreed that these two accounts should remain open. While the American Jobs Creation Action Deduction Memorandum Account was included in the application, Suburban explained, and ORA agreed, that Commission Resolution L-411-A exempted the need for this account.

Special Requests

Parties agreed that the recovery of the 2012 Cost of Capital Litigation Memorandum Account should be recovered

through a twelve-month surcharge to ratepayers. In response to the Suburban request to open an Employee Healthcare Balancing Account, Parties agreed to the opening of the account but Suburban would only recover 85 percent of costs above the baseline estimated amounts for 2015 and 2016. Parties agreed to Suburban's request to perform a pilot to offer a credit card payment option to its customers with clarifying language to ensure that customers who do not use the option do not pay for it. Additionally, parties agreed that \$172,000 of the Personal Computers (hardware and Software) Category be allocated to the cost of the credit card pilot's hardware and software.⁴ Parties agreed to recommend that the Commission authorize Suburban to amortize the Water Revenue Adjustment Mechanism Balancing Account and the Low Income Ratepayer Assistance Memorandum Account through a twelve-month surcharge. Parties agreed to close the Income Tax Repair Regulations Implementation Memorandum Account. Parties agreed to Suburban's estimates for the number of Low Income Ratepayer Assistance customers.

3. Settlement Standard of Review

As the applicant in the underlying general rate case, Suburban bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.

The requirements for settlements are set forth in Article 12, Rules 12.1 through 12.7 of the Commission's Rules of Practice and Procedure. Rule 12.1(a) requires parties to submit a settlement by written motion within 30 days after the last day of hearing. Because a settlement was reached prior to the commencement of a hearing, the time limit does not apply here. Consistent with

⁴ Amended Motion, Appendix A at 24. As agreed to in the Settlement, \$172,000 has been reclassified from recovery in rate base to recovery through depreciation, return, and income taxes in the Credit Card Pilot Implementation Program Memorandum Account.

Rule 12.1(b), the Parties noticed and convened a settlement conference from July 8, 2014 through July 11, 2014, which resulted in a settlement of all but one disputed issue.

The Commission must decide whether to approve the Settlement. The relevant standard is provided in Rule 12.1(d), which states that the Commission will not approve a settlement unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. In general, the Commission does not consider if a settlement reaches the optimal outcome on every issue. Rather, the Commission determines if the settlement as a whole is reasonable. A settlement should also provide sufficient information to enable the Commission to implement and enforce the terms of the settlement. In the next section, we discuss the Settlement at question and make a determination as to whether it meets this standard.

4. Discussion: Is the Settlement Reasonable in Light of the Whole Record, Consistent with the Law, and in the Public Interest

The Commission must determine if the Settlement in this proceeding meets the three criteria required for a settlement. As discussed below, we find that the Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

First, is the Settlement reasonable in light of the whole record? We find that the Settlement is reasonable in light of the entire record. We base this on an analysis of each party's case noting that each party mutually compromised resulting in a Settlement that lessens the burden on ratepayers, in comparison with Suburban's original requested rate increase, but allows Suburban to continue to provide safe and clean water service in an efficient and cost-effective manner. The record in this proceeding consists of all filed documents, the served

testimony, the proposed settlement, and the motion for its adoption. The Scoping Memo laid out the issues to be determined in this proceeding. The Settlement resolves all but one of these issues and Parties filed briefs on that remaining issue.⁵

The Parties fully considered the facts relevant to this case and reached reasonable compromises on the issues to achieve the Settlement. The Settlement will keep the rate burden as low as is reasonable while allowing Suburban to recover a reasonable amount of increased costs. Furthermore, the Settlement simultaneously promotes operational efficiency, infrastructure development and investment. The Settlement is mutually beneficial to both Suburban and ratepayers and, thus, is reasonable.

We next look at whether the Settlement is consistent with the law. We find that the Settlement is consistent with the law and Commission decisions. As discussed above, the Parties complied with the provisions of Rule 12 regarding Settlements. Furthermore, we find that there are no terms within the Settlement that would bind the Commission in the future or violate existing law. The Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Settlement. Furthermore, the Parties entered into the Settlement voluntarily and upon review and advice by their respective legal counsels and technical staff.

Lastly, we must determine whether the Settlement is in the public interest. We find that the Settlement is in the public interest for multiple reasons. The Parties represent both sides of this case: the utility and the ratepayers and the Settlement balances those interests at stake. Settlements serve the public interest

⁵ See Section 5. Litigated Issue.

by resolving competing concerns in a collaborative and cooperative manner. Furthermore, the Settlement avoids the costs of EH and resources of the Commission, thus saving public funds. Finally, the settlement ensures that customers have continued access to an affordable, safe and reliable water supply system.

Approval of the Settlement will provide speedy resolution of contested issues, thus saving unnecessary litigation expenses and Commission resources. The Commission has acknowledged a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.⁶

Adoption of the Settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the Settlement does not bind or otherwise impose a precedent in this or any future proceeding. Suburban should not presume that the Commission would deem the outcome adopted in this decision to automatically be reasonable in any subsequent application. Hence, future applications filed by Suburban should fully justify every request and ratemaking proposal, as required by statute and Commission rule, and without reference to, or reliance on, the adoption of the Settlement.

5. Litigated Issue

Suburban and ORA did not settle three sub-issues related to the issue of recovery of general rate case expenses:

- Whether the Commission should shift Suburban from amortized recovery of general rate case expenses to recovery of forecasted expenses for a future general rate case;

⁶ Motion at 5 citing D. 88-12-083.

- Whether the Commission should allow Suburban to recover the agreed-upon expenses for the current general rate case; and
- If such a shift is authorized, and should the Commission allow recovery of the expenses for this general rate case, what should be the length of the recovery period?

This Decision authorizes 2015-2017 GRC expenses to be recovered on a forecasted basis, as was previously ordered in D.12-04-009. D.12-04-009 also ordered that in this application, Suburban should provide a three-year forecast for the future GRC costs as well as a catch-up adjustment to shift from amortization to a forward forecast; Suburban complied. We approve recovery of both the three-year forecast as well as the catch-up adjustment; the specific amounts have been agreed to in the Settlement. Furthermore, the costs for the catch-up adjustment should be recovered over the three years of this rate case. The details of these determinations are presented in the following sections.

5.1. Discussion of Litigated Issues

5.1.1. Background

In Suburban's 2012-2014 rate case, filed in 2011, the Commission determined that a) it is Commission past practice to amortize Suburban's current GRC costs,⁷ i.e. the costs of the 2011 GRC were amortized over 2012-2014; b) it is reasonable to adopt the forecasting of future GRC costs because it provides a limit on costs or at least an incentive to control costs,⁸ e.g. the costs of the 2017 GRC are forecasted and recovered over the time period of 2015-2017; c) if the Commission adopted the practice of forecasting at this time, we would also have

⁷ D.12-04-009 at 9.

⁸ *Id.* at 10.

to “catch-up for the unamortized years as well as include a future forecast in order to avoid a gap in Suburban’s recovery of costs;”⁹ and d) because Application 11-02-002 had no adequate proposal for a catch-up, the Commission should continue the past practice of amortization for this GRC but require Suburban to include, in its 2015-2017 GRC, a proposal for a “three-year forecast for the next rate case cycle as well as a catch-up adjustment to shift from amortization to a forward forecast.”¹⁰

5.1.2. Amortized versus Forecasted Recovery of Expenses

Suburban claims that historically, costs for a GRC have been amortized in the test year and the attrition years following that GRC.¹¹ Hence, according to Suburban, the approved costs for its 2011 GRC are currently being recovered in rates.¹² However, Suburban requests the Commission to reconsider its prior decision to forecasts these expenses and instead permit Suburban to continue to amortize general rate case costs over the three years subsequent to that case. Suburban claims that this longstanding recovery method includes safeguards that provide incentives for Suburban to control its costs and takes into account the wide range of possible variability in GRC.¹³ Furthermore, Suburban contends that continuing the current practice would eliminate the need for recovery of amortized and forecasted expenses in one rate case.¹⁴

⁹ *Id.* at 9.

¹⁰ *Id.* at 10-11.

¹¹ Suburban Opening Brief at 2.

¹² *Ibid.*

¹³ *Id.* at 3.

¹⁴ *Ibid.*

ORA contends that the practice of amortizing past rate case expenses equates to retroactive rate making, which is not permitted by the Commission.¹⁵ Furthermore, ORA asserts that forecasting a budget for rate case expense provides a better incentive for Suburban to control costs.¹⁶

Suburban provides several examples where the Commission has permitted and continues to permit the amortization approach.¹⁷ Suburban specifically points to the decision on its most recent general rate case, D.12-04-009, and asserts that the Commission found the amortizing approach to be reasonable. However, D.12-04-009 explained that amortizing Suburban's prior costs is the most reasonable option at this time (*emphasis added*).¹⁸ Furthermore, D.12-04-009 concluded that it is reasonable to continue to amortize prior regulatory costs at this time because otherwise we would need a catch-up adjustment and no such data exist in the record.¹⁹ As noted above, D.12-04-009 directed Suburban in its next rate case to provide a proposal for a three-year forecast and a catch-up adjustment in order to shift from amortization to a forward forecast.

More recently, the Commission determined that the amortization approach is, indeed, retroactive ratemaking. In D.12-06-016 (the decision addressing California American's GRC), the Commission stated that deferring rate case expenses, as is done with the amortization approach, is not consistent with the

¹⁵ ORA Opening Brief at 1-2.

¹⁶ *Id.* at 2.

¹⁷ See Suburban Opening Brief at 3-4, citing D.90-02-004 (Francis Land and Water Company) and D.99-03-032 (Apple Valley Ranchos Water Company).

¹⁸ D.12-04-009 at 10.

¹⁹ D.12-04-009 at Conclusion of Law No. 6.

law. The Commission explained that its longstanding practice is to set rates based on forecasted expenses and recover them during the rate case cycle in which they occur.²⁰ It is reasonable to transition to the practice of cost recovery for GRCs on a forecasted basis.

Hence, we deny Suburban's request to amortize prior regulatory costs and, instead, adopt the practice of setting rates based on forecasted expenses.

5.1.3. Discussion of Recovery of Expenses for 2014 GRC

We approve Suburban's request to recover both its previously incurred regulatory expenses and its forecasted expenses during this transition to the forecasted approach. The specific amounts of these expenses have been agreed to by the Parties through the previously discussed Settlement.

As directed by the Commission in D.12-04-009, Suburban included in its application both a three-year forecast of general rate case expenses as well as a catch up mechanism of expenses incurred. However, ORA contends that the Commission should not allow Suburban to have a catch-up allowance in its transition from forecasting rate case expenses to amortizing previously incurred expenses. ORA argues that the difference between the two "is largely semantics" and that the expense incurred will not double as a result of making the shift.²¹

As previously stated, Suburban claims that it is currently recovering, in rates, the costs for its 2011 GRC and not the costs for this proceeding. Hence, Suburban asserts that it has a right to recover the reasonable costs for this GRC.

²⁰ D.12-06-016 at 22. See also, D.12-06-016 at Conclusion of Law 10 and 11. Furthermore, D.03-06-036 states that absent a previously authorized memorandum or balancing account, the Commission's longstanding, consistent practice is to set rates based on forecasted expenses.

²¹ ORA Opening Brief at 2.

Suburban justifies its contention by pointing out that the Commission has stated previously that it would be unjust to deny recovery to a utility where it requires that utility to participate in a proceeding or incur certain costs.²²

In D.12-06-016, the Commission determined that amortizing previously incurred expenses is retroactive ratemaking and directed that in order to transition from amortization to forecasting, California American Water Company would recover both the amortized and forecasted amount simultaneously.²³ Furthermore, D.12-04-009 stated that reasonable costs are allowable in rates and concluded that without a catch-up mechanism there would be a gap in recovery. We find it reasonable to authorize Suburban to recover both amortized and forecasted GRC expenses.

5.1.4. Discussion of Length of Recovery Period

Suburban is authorized to recover both its previously incurred regulatory expenses and its forecasted expenses over a period of three years, 2015-2017.

Suburban requests that if the Commission authorizes Suburban to recover amortized rate case expenses as well as forecasted expenses, the Commission should allow Suburban to recover those expenses within the time of the current rate case, 2015-2017.

ORA contends that if the Commission allows recovery of both, it should extend the recovery of costs for the amortized expenses over a period of six years in order to ease the burden on ratepayers. ORA argues that, by using the six-year methodology, the burden of any amount amortized over an infinitely

²² Suburban Opening Brief at 9 citing D.12-04-009 at 9.

²³ D.12-06-016 at 23.

long amortization schedule would approach zero.²⁴ However, Suburban provides calculations that indicate the difference in burden between three years and six years is only about eleven cents per customer per month.²⁵ It is reasonable to allow Suburban to recover these expenses during this rate case.

6. Comments on Proposed Decision

The proposed decision of ALJ Hymes in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on December 4, 2014 by Suburban and reply comments were filed on December 9, 2014 by ORA.

In response to comments, corrections and clarifications have been made throughout this decision. In particular, Suburban pointed out that two adjustments agreed to in the Settlement were not specifically pointed out in the proposed decision.

First, Suburban states that the escalation factor has been updated from the June 2013 to the July 2014 factor. We add this clarification to the overview of the Settlement in Section 2 above.

Second, Suburban points out that \$172,000 in credit card implementation costs has been reclassified from recovery in rate base to recovery through depreciation, return, and income taxes in the Credit Card Pilot Program Memorandum Account, as agreed to in the Settlement. We add this clarification to the overview of the Settlement in Section 2 above.

²⁴ ORA Opening Brief at 4.

²⁵ Suburban Opening Brief at 12.

Suburban explains that these two numbers were not reflected in the calculations in the Settlement. Furthermore, the two adjustments reduce the revenue requirements by \$60,511 in 2015 and \$24,566 in 2016. However, Suburban confirms that these adjustments were included in the model provided to the Division of Water and Audits and are correctly reflected in the proposed decision.²⁶

7. Categorization and Need for Hearing

The Commission preliminarily determined a need for hearings in this case. The Scoping Memo issued by the assigned Commissioner and the ALJ found that hearings may be necessary. However, following three days of alternative dispute resolution and settlement discussions, the Parties no longer had any materials contested issues of fact and, thus, the ALJ found that evidentiary hearings were no longer necessary and cancelled the scheduled hearings.

8. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Kelly A. Hymes is the assigned ALJ in this proceeding.

Findings of Fact

1. The record for the Settlement is composed of the application, testimony of the parties and all other filings, including the Settlement
2. The Scoping Memo for this proceeding defines the issues to be determined in this proceeding.
3. The Settlement resolves all but one of the scoping memo issues.
4. The remaining issue has been briefed by the parties.

²⁶ Suburban Comments to the Proposed Decision, December 4, 2014, at 2.

5. Each party mutually compromised in the Settlement.
6. The Settlement lessens the burden on ratepayers, in comparison with Suburban's original requested rate increase.
7. The Settlement allows Suburban to provide safe and clean water service in an efficient and cost-effective manner.
8. The parties complied with the provisions of Rule 12 regarding Settlements.
9. There are no terms within the Settlement that would bind the Commission in the future or violate existing law.
10. The Parties represent the utility and the ratepayers.
11. The Settlement balances the interests at stake.
12. Settlements serve the public interest by resolving competing concerns in a collaborative and cooperative manner.
13. The Settlement avoids the costs of evidentiary hearings and resources of the Commission, thus saving public funds.
14. The Settlement ensures that customers have continued access to an affordable, safe and reliable water supply system.
15. The Commission's longstanding practice is to set rates based on forecasted expenses and recover them during the rate case cycle in which they occur.
16. The difference in ratepayer burden between the recovery of prior GRC costs over three years versus six years is only about eleven cents per customer per month.
17. The Parties settled all material contested issues of fact.

Conclusions of Law

1. The Settlement is reasonable in light of the entire record.
2. The Settlement is consistent with the law and Commission decisions.
3. The Settlement is in the public interest.

4. The Settlement should be adopted.
5. D.12-04-009 explained that amortizing Suburban's prior costs was the most reasonable option at that time.
6. D.12-04-009 concluded that it was reasonable to continue to amortize prior regulatory costs because otherwise the Commission would need a catch-up adjustment and no such data existed in the record.
7. D.12-04-009 directed Suburban, in this rate case, to provide a proposal for a three-year forecast and a catch-up adjustment in order to shift from amortization to a forward forecast.
8. D.12-06-016 stated that deferring rate case expenses is not consistent with the law.
9. D.12-06-016 determined that amortizing previously incurred expenses is retroactive ratemaking.
10. D.12-04-009 stated that reasonable costs are allowable in rates and concluded that without a catch-up mechanism, there would be a gap in recovery.
11. It is reasonable to continue the practice of authorizing cost recovery on a forecasted basis.
12. It is reasonable to authorize Suburban to recover both amortized and forecasted GRC expenses over a period of three years from 2015-2017.
13. Hearings are not necessary.

O R D E R**IT IS ORDERED** that:

1. The proposed test year 2015 and attrition year 2016 ratemaking settlement (Attachment 1 to this decision) between Suburban Water Systems and the Office of Ratepayer Advocates is adopted.

2. The adopted test year revenue requirement for Suburban Water Systems must be calculated using:

- a. The results of the adopted settlement (Attachment 1 to this decision);
- b. The California Public Utilities Commission's July 2014 escalation factor number memoranda; and
- c. The unamortized prior general rate case (GRC) costs to be amortized over the three years from 2015-2017 and the three-year forward forecast of GRC costs specified in the adopted settlement (Attachment 1 to this decision.)

3. Suburban Water Systems must file a Tier 1 Advice Letter within 14 days of this decision to:

- a. Implement the rates, charges, surcharges and surcredit adopted herein and as set forth in this decision and the appendices;
- b. Increase the amount of deposit to establish credit and to establish the criteria for return of deposits;
- c. Establish requirements for Customer Information Sharing;
- d. Establish the Affiliate Transaction Rule Employee Transfer – One-Time Payment Memorandum Account;
- e. Create and implement Credit/Debit Card Program Memorandum Account beginning January 1, 2015 as adopted in the proposed settlement (Attachment 1 to this decision);
- f. Create and implement an Employee Healthcare Balancing Account to record and recover the difference between the

adopted and the actual costs of employee healthcare expense beginning January 1, 2015 (Suburban will recover 85 percent of the costs above the adopted amounts in Test Year 2015, and attrition years 2016 and 2017); and

- g. Recover over twelve months the revenues associated with the resolution of the rehearing of a hold-over issue from a prior proceeding A.11-02-002 (the issue involves the California Corporation Franchise Tax deductible in computing Federal Income Taxes for the years 2012 through 2014).

4. Suburban Water Systems may timely file Tier 1 Advice Letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for post-test year rates effective on January 1, 2016, and January 1, 2017, as set forth in Decision 07-05-062 and shall include appropriate supporting work papers. These filings must also comport with and comply with the settlement as adopted in Ordering Paragraph 1 of this decision and effect of the outcomes adopted in Ordering Paragraph 2 of this decision.

5. Application 14-02-004 is closed.

This order is effective today.

Dated _____, at San Francisco, California.